

University of Mississippi

eGrove

Newsletters

American Institute of Certified Public
Accountants (AICPA) Historical Collection

8-1987

Practicing CPA, vol. 11 no. 8, August 1987

American Institute of Certified Public Accountants (AICPA)

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_news



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

GAINING FROM INSPECTIONS

Our practice has grown substantially since its inception ten years ago. In terms of clients and fees, the growth has been healthy. We are still in the process of building a team of experienced professionals, however. Until our staff further matures, the experienced professionals in our firm have to concentrate their efforts on developing and training younger staff members and on providing quality service to our growing client base.

We are committed to our system of quality control. Our firm has always stressed quality above all else and we know that it does exist in the firm—a fact borne out by the results of two peer reviews. The key question for us became whether we needed peer review or whether it was simply an extra cost to find out something we already knew.

The annual inspection requirement of the division for CPA firms had been a thorn in our side for several years and, at one time, we had even considered terminating our membership in the private companies practice section. When we discussed the issue with our staff, however, it became clear that there was a desire to know that quality would be maintained in the years ahead and that peer review should be an important part of our future. The challenge then shifted to how to gain more use from the time spent on inspections.

The answer came during a brainstorming session at our annual partner retreat. Each November, the professional staff (including partners) gathers at a suburban conference facility for a full week of continuing professional education. Outside professionals are engaged to present all of the subject matter, which ranges from topics such as compliance with SAS 39, FASB updates, current trends in small business auditing, changes in tax laws and the like, to how to improve a professional wardrobe and how to select the proper wine when entertaining a business associate. Most of the sessions are held for the entire

group in order to encourage dialogue and interaction between all levels of staff. The idea that originated at our partner retreat was to segregate the participants into three review teams for two days and have each team perform an inspection of an engagement. This is how we implemented it.

The weekend before CPE week, the partner and manager in charge of quality control selected three engagements for inspection—one review and two audits—that were approximately equal in scope and had a variety of tax as well as accounting and auditing issues. The three review teams were structured to include at least one partner and one entry-level staff member. Our tax manager was assigned to the team that had the most complex tax issues.

Each team was given twelve hours to complete and document its inspection, and six hours were allocated for each team to conduct a two-hour presentation on its findings, both good and bad. The following formal agenda was given to each team:

- ☐ Discuss the planning memorandum.
- ☐ Review the workpapers and checklists and discuss accounting and auditing, historical tax items including return preparation, MAS, and reporting issues.
- ☐ Perform all of the procedures in the peer review program summary checklist and complete it.
- ☐ Address tax planning issues, particularly in view of TRA 1986.

What's Inside...

- ☐ On a committee, p.2.
- ☐ Highlights of recent pronouncements, p.3.
- ☐ The personal marketing of professional services, p.5.
- ☐ Accountants for the public interest, p.7.
- ☐ Helping clients learn about computers, p.8.

☐ Document findings and form a conclusion as to whether peer review requirements have been met, the firm has performed the best possible service to the client from all aspects, and if there are any ideas that have surfaced that would be of benefit to the client.

☐ Prepare a formal presentation to the entire staff using flipcharts, etc.

One problem we anticipated was that in forming teams of highly competitive professionals, each review team would feel compelled to devote much energy to finding something that the engagement team did wrong, from missing tax planning or service opportunities to minor documentation or checklist omissions. Although we wanted part of that in the results, we did not want the sessions to become negative and portray the firm as being substandard, when, in fact, all the work performed was excellent. As it turned out, members of each team emphasized the good as well as the bad, and there was a lot more of the former than the latter.

What the program accomplished

The engagement review aspect of our annual inspection was completed (and was extremely thorough). The only significant review comment that surfaced was that the tax workpapers were not as complete as they should have been.

The entire group gained exposure to accounting, auditing, tax, and MAS issues on complex client engagements, and the knowledge gained in a previous CPE session on TRA 1986 was solidified with actual client examples of its impact. Furthermore, some of the younger professionals were able to work alongside the partners and were able to demonstrate their presentation skills and knowledge during the presentations.

Each team did in fact develop some useful ideas and, most important, everyone was able to share a great deal of good news. The younger staff members, in particular, were impressed by how much effort goes into the MAS and tax portions of the engagement, and by the innovative ideas that are part of our approach.

Needless to say, our inspection this year was a tremendous success. Next year we plan to expand

the program to include some of the smaller clients in order to highlight how complex these engagements can be, and the differences in approach. In the final analysis, the inspection program is now something to which we can look forward. ☒

—by Richard J. Caturano, CPA
and Michael T. Ferraro, CPA
Boston, Massachusetts

*Oh give me your pity!
I'm on a committee,
Which means that from morning to night*

*We attend and amend
And contend and defend
Without a conclusion in sight.*

*We confer and concur,
We defer and demur,
And reiterate all of our thoughts.*

*We revise the agenda
With frequent addenda
And consider a load of reports.*

*We compose and propose,
We suppose and oppose,
And the points of procedure are fun;*

*But though various notions
Are brought up as motions,
There's terribly little gets done.*

*We resolve and absolve;
But we never dissolve,
Since it's out of the question for us*

*To bring our committee
To end like this ditty,
Which stops with a period—thus.*

Leslie Lipson,
University of California at Berkeley



The Practicing CPA (ISSN 0885-6931), August 1987, Volume 12, Number 2. Publication and editorial office: 1211 Avenue of the Americas, New York, NY 10036-8775. Copyright © 1987 American Institute of Certified Public Accountants, Inc. Opinions of the authors are their own and do not necessarily reflect policies of the Institute.

Editor: Graham G. Goddard

Editorial Advisors: Jerrell A. Atkinson, Albuquerque, NM; Richard A. Berenson, New York, NY; Robert L. Carr, Canton, OH; Jeffrey S. Gold, Washington, DC; Daniel S. Goldberg, Livingston, NJ; William M. Harvill, Birmingham, AL; Robert L. Israeloff, Valley Stream, NY; Jerry W. Jackson, Bluefield, WV; Sidney F. Jarrow, Chicago, IL; Joe D. Jones, Jackson, MS; Charles B. Larson, St. Joseph, MO; H. W. Martin, Rome, GA; Walter F. Reardon, Upland, CA; Ronald C. Russell, Springfield, OH; Abram J. Serotta, Augusta, GA; John B. Sperry, Richmond, VA; Davis A. Werbelow, Pasadena, CA; Donald P. Zima, Atlanta, GA.

Highlights of Recent Pronouncements

FASB Statement of Financial Accounting Standards (SFASs)

No. 91 (December 1986), *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*

- ☐ Establishes standards of financial accounting and reporting for nonrefundable fees and costs associated with lending activities and loan purchases.
- ☐ Applies to all types of loans and lenders.
- ☐ Specifies the accounting for fees and initial direct costs associated with leasing. Changes the practice of recognizing loan origination and commitment fees at or prior to inception of the loan.
- ☐ Rescinds FASB Statement no. 17, *Accounting for Leases—Initial Direct Costs*.
- ☐ Amends FASB Statements no. 13, *Accounting for Leases*; no. 60, *Accounting and Reporting by Insurance Enterprises*; and no. 65, *Accounting for Certain Mortgage Banking Activities*.
- ☐ Applies prospectively to all lending and leasing transactions entered into and commitments granted in fiscal years after December 15, 1987. Retroactive application, with restatement of all prior periods presented, is encouraged but not required.

No. 90 (December 1986), *Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs*

- ☐ Amends FASB Statement no. 71, *Accounting for the Effects of Certain Types of Regulation*.
- ☐ Specifies the accounting for plant abandonments and disallowances of costs of recently completed plants.
- ☐ Provides guidance for the capitalization of an allowance for funds used during construction.
- ☐ Effective for fiscal years beginning after December 15, 1987 unless:
 - 1) Application of the Statement would cause a violation or probable future violation of a restrictive clause in an existing loan indenture or other agreement.
 - 2) The enterprise is actively seeking to obtain modification of that restrictive clause.
 In the event these exceptions apply, this Statement is effective for fiscal years beginning after December 15, 1988.

No. 89 (December 1986), *Financial Reporting and Changing Prices*

- ☐ Supersedes FASB Statement no. 33, *Financial Reporting and Changing Prices*, and its subsequent amendments.
- ☐ Makes voluntary the supplementary disclosure of current cost/constant purchasing power information.
- ☐ Effective for financial reports issued after December 2, 1986.

Statements of the Governmental Accounting Standards Board

No. 7 (March 1987), *Advance Refundings Resulting in Defeasance of Debt*

- ☐ Provides guidance on accounting in governmental fund types for advance refundings that result in defeasance of debt recorded in the general long-term debt account group.
- ☐ Provides guidance on required disclosures about advance refunding transactions of all governmental entities regardless of where the debt is reported.
- ☐ Effective for fiscal periods beginning after December 15, 1986. Earlier application is encouraged for fiscal periods for which statements have not previously been issued and retroactive application is permitted for financial statements that have previously been issued.

No. 6 (January 1987), *Accounting and Financial Reporting for Special Assessments*

- ☐ Establishes accounting and financial reporting standards for capital improvements and services financed by special assessments.
- ☐ Eliminates the special assessment fund type as identified in NCGA Statement no. 1, *Governmental Accounting and Financial Reporting Principles*, for financial reporting purposes.
- ☐ Provides guidance for reporting capital improvement assessment projects that meet the following conditions:
 - 1) Initial financing is provided by existing resources and no debt is issued.
 - 2) The assets constructed or acquired will benefit an enterprise fund.
 - 3) The government is not obligated in any manner for the related debt.
- ☐ Defines Special Assessment Debt.
- ☐ Effective for periods beginning after June 15, 1987.

No. 5 (November 1986), *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*

- ☐ Establishes standards for disclosure of pension information by public employee retirement systems (PERS) and state and local governmental employers in notes to financial statements and required supplementary information. These disclosures are intended to provide information needed to assess:
 - 1) Funding status of a PERS on a going-concern basis.
 - 2) Progress made in accumulating sufficient assets to pay benefits when due.
 - 3) Whether employers are making actuarially determined contributions.
- ☐ Standardizes pension disclosure guidance by superseding the pension disclosure requirements of paragraph 9 of GASB Statement no. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*.
- ☐ Requires disclosures in both financial reports issued by PERS and those issued by employers, including those that do not fund their pension obligation.
- ☐ Requires the computation and disclosure of a standardized measure of the pension obligation.
- ☐ Requires ten-year trend information be presented as supplementary information, including comparisons of:
 - 1) Net assets available for benefits to the pension benefit obligation.
 - 2) Unfunded pension benefit obligation to annual covered payroll.
 - 3) Revenues by source to expenses by type.
- ☐ Requires employers to disclose only summary information about their participation in cost-sharing multiple-employer PERS.
- ☐ Provides guidance on disclosure of information on defined contribution pension plans.
- ☐ Effective for financial reports issued for fiscal years beginning after December 15, 1986. Earlier application is encouraged.

Statements on Auditing Standards

No. 51 (July 1986), *Reporting on Financial Statements Prepared for Use in Other Countries*

- ☐ Provides guidance for independent auditors

practicing in the U.S. who are engaged to report on the financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the U.S.

- ☐ Effective for examinations of financial statements for periods beginning after July 31, 1986.

Information for Members

Technical information

The primary responsibility of the twelve people who staff the Institute's technical information service is to answer members' questions on technical matters. They receive some 30,000 inquiries per year on accounting principles, financial statement presentation, auditing and reporting standards, and certain aspects of professional practice, excluding tax and legal matters. If you would like some assistance, we encourage you to call toll-free: United States, (800) 223-4158; New York State, (800) 522-5430.

Library services

The AICPA library's staff can offer assistance on a broad range of business topics. AICPA members anywhere in the U.S. may borrow from the library's extensive collection. For assistance, just call these toll-free numbers: United States, (800) 223-4155; New York State, (800) 522-5434.

Please note that toll-free calls cannot be transferred to other Institute departments.

NAARS accounting and financial data library

Subscribers have access to different types of files in the Institute's NAARS library. These are annual reports, including financial statements, footnotes, auditors' opinions, and all current and superseded authoritative and semi-authoritative literature from the AICPA, FASB, GASB, and SEC. For further information, just call this number: (212) 575-6393.

The Personal Marketing of Professional Services

There are four major phases to the personal marketing of professional services—creating a positive public image, developing relationships, selling the services, and serving the clients. These activities usually occur in this sequence, and all of them rely on the efforts of the individual.

Creating a positive public image involves such pursuits as joining and being active in civic, social, and political organizations, and in executive and professional associations. Some specific activities may be to develop and distribute pamphlets and brochures, write articles, give speeches, arrange discussions and seminars, etc. The purpose is to become known and to develop a reputation as a doer and contributor—someone of substance and value. So, don't just say "accountant" when responding to the question, "What do you do?" Let people know that you have developed a specialty or niche and how you can help them. It is a more attractive descriptive statement.

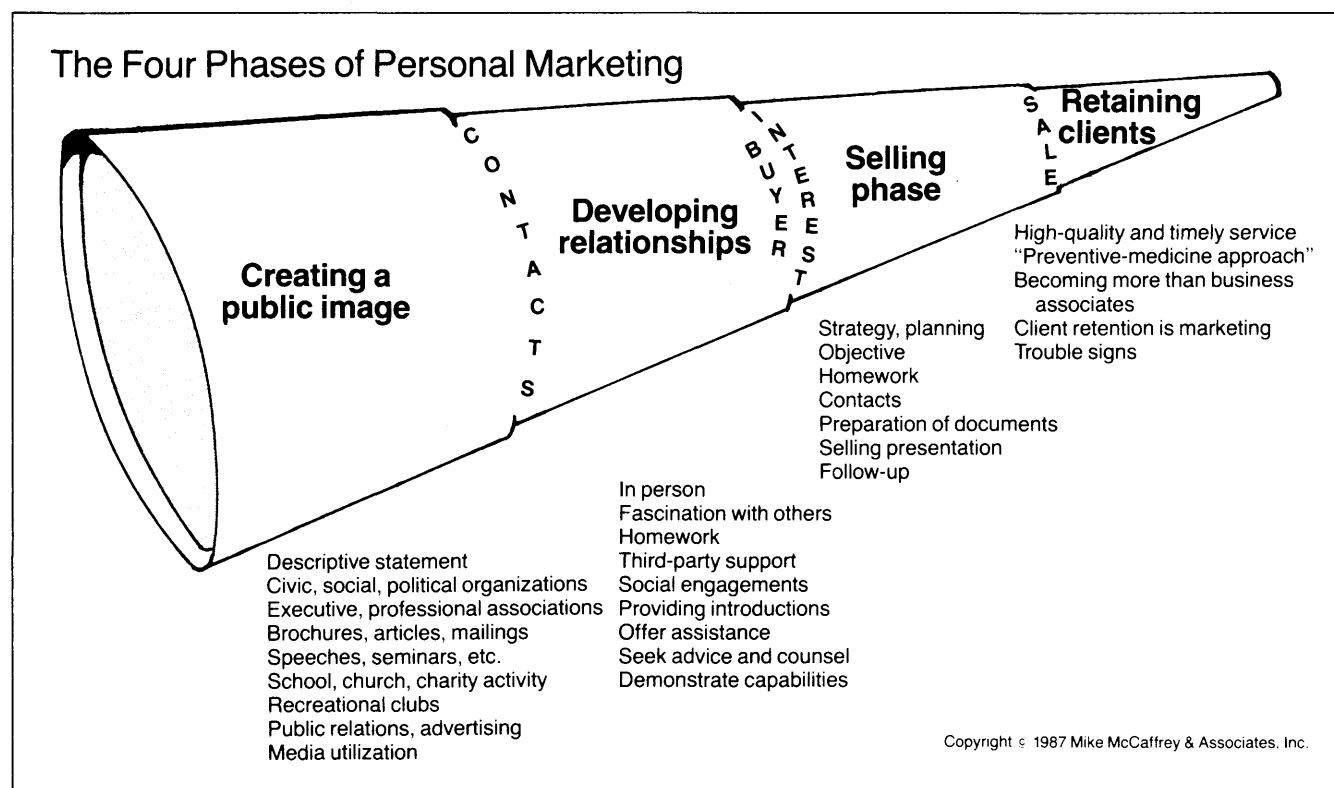
No one type of activity should be viewed as the mold. People must be comfortable with the activity, though, and the need for making contacts must be recognized. The more contacts made, the more opportunities and, ultimately, more clients can be obtained. You need numbers. In order to get a hit,

you may have to go to bat several times, and marketing is getting yourself up to bat.

By developing relationships, we mean getting closer to potential buyers of your services. This necessitates doing your homework—really learning about the individual, the firm, and the industry, and by providing third-party support in terms of introductions, assistance, advice and counsel. Participation in social activities is important, too. Keep in mind, though, that the purpose of taking someone to a social event is to get close, not necessarily to talk about business.

Third-party introductions and support are two of the surest ways to get closer to potential clients. The key words to remember when developing such sponsorship are help, release, and appreciate. Always make it easy for sponsors to help you by doing as much of the leg work as you can, thus saving them inconvenience, time, and effort. Also, keep sponsors apprised of the status of the contacts, and remember to thank them whether or not any business results. Two other recommendations are to prepare a ready-to-use list of sponsors—people who have given permission to be named as references—and again, to remember to thank them for their cooperation.

Although person-to-person contact is almost always the superior method, periodic phone calls and mail reminders (articles, announcements, books, and tapes) are some ways to get close while



attempting to generate sales opportunities. A calendar and your reminder system can help to make these efforts timely and effective.

Read several back issues before submitting articles to any publication. The more you learn about the types of article desired, the better your chances of being published. If you are successful, have the article reprinted on high quality paper and send copies to your contacts.

The selling phase formally begins when a prospect indicates interest in your service or product. The key to success lies in the planning of the approach. You must decide which members of your firm should be at the meetings and find out who will be on the other team, what the scope of the account or engagement will be and, importantly, why the service is being purchased. In addition, potential problems and selling obstacles must be pinpointed and the fee structure analyzed.

The selling process also includes setting up the appointment advantageously; getting in touch with contacts; preparing the oral presentation, written proposals, and documents; as well as actually making the presentation and following up on it. It should be noted that time is of the essence here. Generally, the less time that elapses between the buyer formally expressing interest and the seller responding, the better the chances of success.

Don't make the mistake of thinking that brochures, proposals, advisory letters, and such will make a sale. These items are occasionally valuable in making initial contacts and usually valuable as confirmations. No piece of paper can sell as effectively as a trained professional, however.

Once the buyer is committed, careful consideration should be given to serving the new client properly and on a continuing basis. This necessitates becoming more than a business associate who provides high-quality, timely service. It means recognizing that client retention is part of the overall marketing process, and being able to spot signs of trouble and deal with problems as soon as possible.

One of the keys to retaining clients is to establish such a relationship with the decision makers that no one else would be considered to provide a similar service. Some of the pivotal areas of establishing such close relationships are

- ☐ Remembering that your conduct, attitude, and manner in nonbusiness activities are often subconsciously perceived by others as a reflection of your technical competence and attitude toward their accounts.
- ☐ Being able to converse on other topics of mutual interest beyond those in the business and professional arena.

The Ten Commandments of Good Business

Clients are

- ☐ The most important people in any business.
- ☐ Not dependent on us—we are dependent on them.
- ☐ Not interruptions of our work—they are the purpose of it.
- ☐ Doing us favors when they call—we are not doing them favors by serving them.
- ☐ Part of our businesses—not outsiders.
- ☐ Not cold statistics—they are flesh-and-blood human beings with feelings and emotions like our own.
- ☐ Not someone with whom to match wits.
- ☐ People who bring us their wants—it is our job to fill those wants.
- ☐ Deserving of the most courteous and attentive treatment we can give them.
- ☐ The lifeblood of this and every other business.

- ☐ Going beyond listening to other people to actually hearing them. You must be able to genuinely understand clients' needs, goals, and concerns.
- ☐ Continuing to do your homework. You must know the client, the firm, and industry.
- ☐ Initiating periodic checkups and finding out how to serve the client better.
- ☐ Keeping all appointments to the best of your ability and letting clients know in a tasteful way how well you are serving them.

Friends can be the most valuable clients, and clients can become close friends. Such an approach can foster both friendships and business relationships. It is easier and certainly more enjoyable to deal with people you know and like.

Remember, marketing and selling professional services is a continuing process. There is not so much a moment of truth when someone decides to buy your services as there is a series of decisions in which less acceptable alternatives are discarded and the highest value is ultimately placed on the most desirable one. ☒

—by Mike McCaffrey
Mike McCaffrey & Associates, Inc.
P.O. Box 4101
Laguna Beach, California 92652

Accountants for the Public Interest

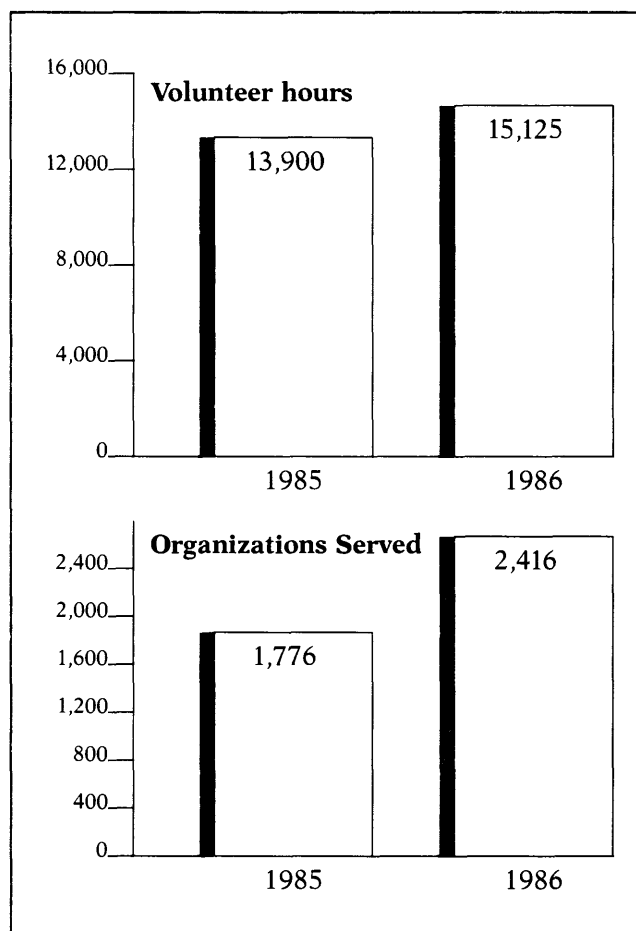
In an era when self-interest is more in vogue than lending a helping hand, Accountants for the Public Interest (API) seems to be successful in going against the grain. API is a nonprofit service organization that helps accountants use their professional skills to assist nonprofit organizations, small businesses, and local government—similar to lawyers' activities in legal public interest work. API has the support of all the major accounting firms and works closely with the professional accounting societies to encourage public service accounting. Local API affiliate organizations help set up accounting systems, prepare financial reports and forms, analyze public issues from a financial perspective and train for leadership skills in financial management.

Accounting volunteers work in their own communities to help small businesses and nonprofit organizations. A look at some of their activities provides a clear picture of the valuable work performed by thousands of API volunteers each year. As the sole statewide source for pro bono accounting services in California, the Clearinghouse for Volunteer Accounting Services (CVAS) typically receives thirty-five requests a month for accounting assistance from California nonprofit organizations. Many of those requests are for urgent help to resolve a crisis; others seek professional guidance to accomplish essential budgeting, bookkeeping, or reporting procedures. But the accounting aspects of such requests—and their eventual solution—often mask the human side of the program, a dimension not clearly represented by numbers alone. One case in particular illustrates the point.

Last year the director of a small Southern California nonprofit organization phoned CVAS. At 80 years of age, she unexpectedly found herself in charge of the nonprofit she had formed years before. The bookkeeper had left suddenly, the year-end IRS tax report was past due, and her volunteer-based group, supported by small private contributions, could not afford to pay an accountant. She was, she explained, "in a pickle." Notwithstanding the penalties for late filing, the problem was clearly distressing to her personally. Could CVAS help?

The same as 260 other people who contacted CVAS during the past year, the caller's organization did receive help: in this instance, fifteen hours of services provided by a CVAS volunteer accountant.

The process for providing that volunteer involved contacting a number of working accountants to locate someone in the vicinity who would be available and willing to undertake the work. And as with the other 240 accountants who volunteered their time and expertise to CVAS last year, this CPA was requested not to charge for his assistance.



Many nonprofit organizations would like to have an accountant on their board of directors. They believe that an accountant's expertise and professionalism would enhance the functioning of the organization. Last year, the API network helped place accountants on the boards of more than 200 nonprofit organizations. Accountants who accepted positions sometimes served as the treasurer or chaired the organization's finance committee.

Thanks to generous contributions from the accounting community, corporations, foundations, and individual accountants who volunteer their time, API was able to serve over 2,400 organizations in 1986. By using volunteers, these contributions are leveraged to help bring fiscal soundness to small businesses and nonprofit organizations. More than 15,000 hours of volunteer time made it possible for organizations that cannot afford to pay for professional accounting services get the help needed.

Readers who want to become volunteer accountants with the API network can obtain a membership application from Peter D. Rosenstein, executive director, Accountants for the Public Interest, 888 17th Street, N.W., Washington, D.C. 20006: (202) 659-3797. ☒

Helping Clients Learn About Computers

Computers can be intimidating for first-time users who may find themselves "required" to use one as part of their jobs. Sometimes, in the rush to computerize operations, the importance of assisting and properly training beginning users is overlooked.

Often, employers find it difficult to provide the time and facilities for uninterrupted learning, and their employees may be reluctant to put in the extra time necessary to learn the new system. The training should never be conducted in a haphazard manner, however, or be held where the employees' jobs will result in distractions. In such situations, we find that our staff at Simmons & Company can be of great help to our clients.

First of all, we advise clients to make their commitment to computer usage known to their employees and to assure them that they will be supported by the firm during the transition. We also advocate checking the software package thoroughly to make sure it is well designed and adequately documented—features that will make it easier for beginning users to get started.

Another suggestion for speeding the learning process is to have the beginners work with experienced

users who can go over the program with them and answer their questions. Also, it is often better for beginners to learn a little about a program and check the features they need in the manual, rather than to attempt to digest it all at one time.

A possible option is for employees to attend a computer seminar, especially one designed for a specific level of knowledge and/or software package. For beginning users, we might recommend a relatively inexpensive, elementary course. For people who have a good working knowledge of computers and some experience in using the program, we find that attendance at seminars conducted by professional groups can be worth the added cost. The instructors are usually well-versed in the subject matter, can give tips, and recommend additional reading matter. This type of seminar will most often include a course outline (for later perusal) and diskettes with program applications.

We believe that with our help in evaluating the level of their employees' expertise and in choosing appropriate programs and training courses, our clients can quickly make effective use of their computers. ☒

—by *Beverly D. Purtlebaugh, CPA*
Muncie, Indiana

American Institute of Certified Public Accountants, Inc.
1211 Avenue of the Americas
New York, N.Y. 10036

Non-Profit Organization U.S. POSTAGE PAID American Institute of Certified Public Accountants
--